

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name St. Clair Township	County St. Clair
Audit Date 6/30/05	Opinion Date 7/20/05	Date Accountant Report Submitted to State: 11/17/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple			
Street Address 1979 Holland Avenue	City Port Huron	State MI	ZIP 48060
Accountant Signature <i>Stewart, Beauvais & Whipple</i>		Date <i>11-17-05</i>	

ST. CLAIR TOWNSHIP, MICHIGAN
St. Clair County, Michigan

ANNUAL FINANCIAL STATEMENTS
with Supplementary Information

FOR THE YEAR ENDED
JUNE 30, 2005

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



ST. CLAIR TOWNSHIP, MICHIGAN
St. Clair County, Michigan

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Township Board
St. Clair Township
St. Clair County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of St. Clair Township, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the basic financial statements of the Township's primary government as listed in the table of contents. These financial statements are the responsibility of St. Clair Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of St. Clair Township, Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 6, and budgetary comparisons on pages 30 and 31 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise St. Clair Township's basic financial statements. The combining schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedure applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Certified Public Accountants

July 20, 2005

OVERVIEW OF THE FINANCIAL STATEMENTS

St. Clair Township's 2005 annual report is presented in conformity with the requirements of GASB 34. This annual report consists of four parts – management's discussion and analysis, the basic financial statements, required supplementary information, and other supplemental information, which presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the Township. The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the Township's government, reporting the Township's operations in more detail than the government-wide statements.

Government-wide Financial Statements

The government-wide statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid (full accrual).

The two government-wide statements report the Township's net assets and how they have changed. Net assets, defined as the difference between the Township's assets and liabilities, are one way to measure the Township's financial health or position.

The government-wide financial statements of the Township are divided into two categories:

Governmental activities – most of the Township's basic services are included here, such as the fire, public works, and general administration. Property taxes, state-shared revenue, charges for services, provide most of the funding.

Business-type activities – the Township charges fees to customers to help it cover the costs of certain services it provides. The Township's water and sewer system is treated as business-type activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Township's most significant funds; not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The Township Board establishes other funds to control and manage money for particular purposes.

The Township has three kinds of funds:

Governmental funds - Most of the Township's basic services are included in governmental funds, which focus on how cash and other financial assets can readily be converted to cash flow in and out, and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs.

Proprietary funds - Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information.

Fiduciary Funds – The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Township’s fiduciary activities are reported in a separate statement of assets and liabilities. We exclude these activities from the Township’s government-wide financial statements because the Township cannot use these assets to finance its operations.

FINANCIAL OVERVIEW (Government-wide financial analysis)

The Township has combined total net assets of \$6,793,625. This is an increase over 2004 of \$156,027. Government-type activities comprise \$3,645,242, and business-type activities make up \$3,148,383 of the total net assets. In a condensed format, the table below shows net assets as of the June 30, 2005 and 2004.

	Governmental Activities		Business-type Activities	
	2005	2004	2005	2004
Assets				
Current assets	\$ 3,330,560	\$ 3,110,145	\$ 1,330,997	\$ 1,341,084
Restricted assets	-	-	480,843	533,182
Noncurrent assets	371,448	363,192	1,802,100	1,822,040
Total assets	<u>3,702,008</u>	<u>3,473,337</u>	<u>3,613,940</u>	<u>3,696,306</u>
Liabilities				
Current liabilities	56,766	31,041	75,557	71,004
Long-term liabilities	-	-	390,000	430,000
Total liabilities	<u>56,766</u>	<u>31,041</u>	<u>465,557</u>	<u>501,004</u>
Net Assets				
Invested in capital assets –				
Net of related debt	371,448	363,192	1,089,012	1,058,592
Restricted	1,109,477	859,079	90,843	533,701
Unrestricted	<u>2,164,317</u>	<u>2,220,025</u>	<u>1,968,528</u>	<u>1,603,009</u>
Total net assets	<u>\$ 3,645,242</u>	<u>\$ 3,442,296</u>	<u>\$ 3,148,383</u>	<u>\$ 3,195,302</u>

The Township governmental activities experienced a net change in assets of \$202,946. The business-type activities experienced a decrease in net assets of \$46,919, which was approximately 2% of expenses.

The following table shows the changes in net assets for 2005 and 2004.

	Governmental Activities		Business-type Activities	
	2005	2004	2005	2004
Revenue				
Program revenue:				
Charges for services	\$ 403,940	\$ 406,394	\$ 609,282	\$ 627,616
Operating grants and contributions	25,270	26,116	-	-
General revenue:				
Property taxes	230,591	204,531	-	-
Unrestricted grants and contributions	453,739	456,870	-	-
Unrestricted investment earnings	<u>55,476</u>	<u>46,032</u>	<u>33,074</u>	<u>27,188</u>
Total Revenue	<u>1,169,016</u>	<u>1,139,943</u>	<u>642,356</u>	<u>654,804</u>
Program Expenses				
General government	288,093	231,839	-	-
Public safety	344,977	329,522	-	-
Public works	319,177	357,685	-	-
Recreation and cultural	13,823	13,200	-	-
Water and sewer	<u>-</u>	<u>-</u>	<u>689,275</u>	<u>668,720</u>
Total Program Expenses	<u>966,070</u>	<u>932,246</u>	<u>689,275</u>	<u>668,720</u>
Changes in net assets	<u>\$ 202,946</u>	<u>\$ 207,697</u>	<u>\$(46,919)</u>	<u>\$(13,916)</u>

Governmental Activities

Revenues for governmental activities totaled \$1,169,016 in 2005. The largest revenues source of the Township is State Shared Revenue of \$431,688 followed by charges from service for refuse collection of \$239,212 and taxes of \$230,591.

Business-type Activities

The Township has two business-type activity, the water and sewer operations. Total revenues, including interest on investments, were \$642,356 and expenses were \$689,275 for a change in net assets of \$(46,919).

The Township contracts with the City of St. Clair for water and sewer treatment service.

FINANCIAL ANALYSIS OF MAJOR TOWNSHIP FUNDS AND BUDGETS

Governmental Fund

The General fund ended 2005 with a fund balance of \$1,805,285, with \$457,629 reserved for specific purposes which include \$250,398 for the purchase of property, \$91,217 for Park and Recreation, \$99,109 for Refuse Collection and \$16,905 for other prepaid expenses. This is an increase of \$410,279 from the prior year mainly as a result of:

- \$250,398 that was transferred from the Improvement Fund for the purchase of property, which was purchased on July 1, 2005.
- Actual revenues were \$50,660 more than budgeted.

- Expenditures for Roads were \$41,000 less than budgeted because the Township did not have any large projects to start before the end of the fiscal year.
- Park expenditures were \$62,167 less than budgeted because the engineering for the bike path was not started until after the fiscal year.

The only significant general fund budget amended was to decrease road expenditures from \$148,563 to \$97,529 as a result of the Township not having any large projects starting until after the fiscal year.

There were no budgets adopted for the assessment, inspection or capital improvement funds.

Business-type Activities

As indicated earlier the Township only has two business-type activity, the water and sewer operations. Total revenues including interest or investment earning was \$642,356 and expenses were \$689,275 for a decrease in net assets of \$(46,919).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Township had \$1,850,460 invested in capital assets for its government and business-type activities (net of accumulated depreciation) as of June 30, 2005. The investment in capital assets includes land, land improvements, buildings, machinery and equipment, vehicles and water and sewer lines. During the year the Township added \$74,462 of capital assets, \$29,784 in government-type activities and \$44,678 in the business-type activities.

Of the \$29,784 purchased in the government-type activities, \$18,100 was for a new roof on the Township Hall and \$11,683 was for guardrails. The \$44,678 in the Business-Type Activities was for water line replacement.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 54,924	\$ -	\$ 54,924
Land improvements	98,811	-	98,811
Building and improvements	244,392	-	244,392
Equipment	101,116	29,628	130,744
Water and sewer lines	-	2,486,259	2,486,259
Construction in progress	-	44,483	44,483
	<u>499,243</u>	<u>2,560,370</u>	<u>3,059,613</u>
Accumulated depreciation	<u>(127,795)</u>	<u>(1,081,358)</u>	<u>(1,209,153)</u>
	<u>\$ 371,448</u>	<u>\$ 1,479,012</u>	<u>\$ 1,850,460</u>

Additional information on the Township's capital assets can be found in Note 5.

Long-Term Debt

At June 30, 2005 the Township's business-type activities had debt outstanding of \$390,000, a decrease of \$40,000 from the prior year. This debt is related to the construction of the sewer supply system.

ECONOMIC FACTORS AND NEXT YEARS BUDGET

The Township of St. Clair, as with many other Townships throughout Michigan, has seen the revenue sharing from the State of Michigan decline. Also, with the Michigan Tax Tribunal amending the taxable value of several utilities throughout the Township, the Township will have to refund some prior years' property taxes to these utilities. The refunds are not expected to be significant to the Township. In order to stay fiscally responsible and still serve the needs of our community, the Board has a balanced budget for 2005-06.

CONTACTING THE TOWNSHIP

This financial report is designed to provide a general overview of the Township's finances to and our residents and other interested parties in understanding the Township's financial condition. If you have questions about this report or need additional financial information, please contact the Township at (810) 329-9042.

BASIC FINANCIAL STATEMENTS

ST. CLAIR TOWNSHIP

STATEMENT OF NET ASSETS JUNE 30, 2005

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 2,707,347	\$ 1,007,654	\$ 3,715,001
Investments	201,941	172,273	374,214
Receivables	153,710	150,074	303,784
Due from other funds	(996)	996	-
Prepaid expenditures	268,558	-	268,558
Restricted assets -			
Cash and cash equivalents	-	217,407	217,407
Investments	-	252,426	252,426
Special assessment	-	11,010	11,010
Sewer capacity rights (net of amortization)	-	323,088	323,088
Capital assets (net of accumulated depreciation)			
Assets not being depreciated	54,924	44,483	99,407
Assets being depreciated	316,524	1,434,529	1,751,053
Total Assets	<u>3,702,008</u>	<u>3,613,940</u>	<u>7,315,948</u>
LIABILITIES:			
Payables and accrued liabilities	6,766	21,310	28,076
Due to other governmental units	-	54,247	54,247
Deferred revenue	50,000	-	50,000
Non-current liabilities			
Due within one year	-	40,000	40,000
Due in more than one year	-	350,000	350,000
Total Liabilities	<u>56,766</u>	<u>465,557</u>	<u>522,323</u>
NET ASSETS:			
Investment in capital assets, net of related liabilities	371,448	1,412,100	1,783,548
Restricted			
Debt Retirement	-	480,843	480,843
Parks and Recreation	91,217	-	91,217
Refuse Collection	99,109	-	99,109
Inspections	4,728	-	4,728
Capital Improvements	914,423	-	914,423
Unrestricted	<u>2,164,317</u>	<u>1,255,440</u>	<u>3,419,757</u>
Total Net Assets	<u>\$ 3,645,242</u>	<u>\$ 3,148,383</u>	<u>\$ 6,793,625</u>

The accompanying notes are an integral part of these financial statements.

ST. CLAIR TOWNSHIP
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General Government	\$ 288,093	\$ 5,740		\$ -
Public Safety	344,977	142,016	2,064	-
Public Works	319,177	256,184	-	-
Recreation and Culture	13,823	-	23,206	-
Total governmental activities	<u>966,070</u>	<u>403,940</u>	<u>25,270</u>	<u>-</u>
Business type activities				
Water Supply System	410,027	382,610	-	-
Wastewater	<u>279,248</u>	<u>226,672</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>689,275</u>	<u>609,282</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 1,655,345</u>	<u>\$ 1,013,222</u>	<u>\$ 25,270</u>	<u>\$ -</u>

General revenues:

Property taxes

Grants and contribution not -
restricted to specific programs

Unrestricted investment income

Total general revenues

Change in net assets

Net assets at beginning of year

Net assets at end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Assets

Primary Government		
Governmental Activities	Business Type Activities	Total
\$(282,353)	\$ -	\$(282,353)
(200,897)	-	(200,897)
(62,993)	-	(62,993)
9,383	-	9,383
<u>(536,860)</u>	<u>-</u>	<u>(536,860)</u>
-	(27,417)	(27,417)
-	(52,576)	(52,576)
<u>-</u>	<u>(79,993)</u>	<u>(79,993)</u>
<u>\$(536,860)</u>	<u>\$(79,993)</u>	<u>\$(616,853)</u>
230,591	-	230,591
453,739	-	453,739
55,476	33,074	88,550
<u>739,806</u>	<u>33,074</u>	<u>772,880</u>
202,946	(46,919)	156,027
<u>3,442,296</u>	<u>3,195,302</u>	<u>6,637,598</u>
<u>\$ 3,645,242</u>	<u>\$ 3,148,383</u>	<u>\$ 6,793,625</u>

ST. CLAIR TOWNSHIP
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General</u>	<u>Assessment</u>	<u>Inspections</u>	<u>Revolving Capital Improvement</u>	<u>Total Governmental Funds</u>
ASSETS					
Assets:					
Cash and cash equivalents	\$ 1,463,282	\$ 580,040	\$ -	\$ 664,025	\$ 2,707,347
Investments	-	201,941	-	-	201,941
Receivable - special assessment	-	12,575	-	-	12,575
Due from other governmental units -					
State	141,135	-	-	-	141,135
Due from other funds	-	5,200	3,473	-	8,673
Prepayments and deposits	267,303	-	1,255	-	268,558
	<u>267,303</u>	<u>-</u>	<u>1,255</u>	<u>-</u>	<u>268,558</u>
Total Assets	<u>\$ 1,871,720</u>	<u>\$ 799,756</u>	<u>\$ 4,728</u>	<u>664,025</u>	<u>\$ 3,340,229</u>
Liabilities:					
Accounts payable	\$ 6,766	\$ -	\$ -	-	\$ 6,766
Due to other funds	9,669	-	-	-	9,669
Deferred revenue	50,000	10,291	-	-	60,291
	<u>50,000</u>	<u>10,291</u>	<u>-</u>	<u>-</u>	<u>60,291</u>
Total Liabilities	<u>66,435</u>	<u>10,291</u>	<u>-</u>	<u>-</u>	<u>76,726</u>
Fund Balances:					
Reserved -					
Prepaid expense	267,303	-	1,255	-	268,558
Parks and Recreation	91,217	-	-	-	91,217
Refuse Collection	99,109	-	-	-	99,109
Unreserved -					
Undesignated -					
General Fund	1,347,656	-	-	-	1,347,656
Special Revenue Funds	-	789,465	3,473	664,025	1,456,963
Total Equity	<u>1,805,285</u>	<u>789,465</u>	<u>4,728</u>	<u>664,025</u>	<u>3,263,503</u>
Total Liabilities and Fund Equity	<u>\$ 1,871,720</u>	<u>\$ 799,756</u>	<u>\$ 4,728</u>	<u>\$ 664,025</u>	<u>\$ 3,340,229</u>

The accompanying notes are an integral part of these financial statements.

ST. CLAIR TOWNSHIP

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS
JUNE 30, 2005**

Fund Balances - total governmental funds	\$	3,263,503
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Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds.

Capital assets		499,243
Accumulated depreciation	(127,795)

Other long term assets are not available to pay for current period
expenditures and, therefore, are deferred in the funds.

Special Assessments		<u>10,291</u>
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Net Assets of governmental activities	\$	<u><u>3,645,242</u></u>
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The notes to the financial statements are an integral part of this statement.

ST. CLAIR TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2005

	General	Assessment	Inspections	Revolving Capital Improvement	Total Governmental Funds
Revenues:					
Taxes	\$ 230,591	\$ -	\$ -	\$ -	\$ 230,591
Licenses and permits	22,558	-	132,184	-	154,742
Intergovernmental -					
Federal/State	433,752	-	-	-	433,752
Local	23,206	-	-	-	23,206
Charges for services	13,415	-	-	-	13,415
Interest and rent	25,066	16,606	-	14,554	56,226
Special assessment	254,618	8,369	-	-	262,987
Other	900	52	-	-	952
Total Revenues	<u>1,004,106</u>	<u>25,027</u>	<u>132,184</u>	<u>14,554</u>	<u>1,175,871</u>
Expenditures:					
Current -					
General Government	286,956	-	-	-	286,956
Public Safety	215,794	-	129,183	-	344,977
Public Works	329,192	917	-	-	330,109
Recreation and Cultural	12,283	-	-	-	12,283
Total Expenditures	<u>844,225</u>	<u>917</u>	<u>129,183</u>	<u>-</u>	<u>974,325</u>
Excess of revenues over (under) expenditures	<u>159,881</u>	<u>24,110</u>	<u>3,001</u>	<u>14,554</u>	<u>201,546</u>
Other Financing Sources (Uses):					
Transfers in	250,398	-	-	-	250,398
Transfers out	-	-	-	(250,398)	(250,398)
Total Other Financing Sources (Uses)	<u>250,398</u>	<u>-</u>	<u>-</u>	<u>(250,398)</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>410,279</u>	<u>24,110</u>	<u>3,001</u>	<u>(235,844)</u>	<u>201,546</u>
Fund Balances at beginning of year	<u>1,395,006</u>	<u>765,355</u>	<u>1,727</u>	<u>899,869</u>	<u>3,061,957</u>
Fund Balances at end of year	<u>\$ 1,805,285</u>	<u>\$ 789,465</u>	<u>\$ 4,728</u>	<u>\$ 664,025</u>	<u>\$ 3,263,503</u>

The accompanying notes are an integral part of these financial statements.

ST. CLAIR TOWNSHIP

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2005**

Net change in fund balances - total governmental funds	\$	201,546
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay		29,784
Depreciation expense	(21,528)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(<u>6,856)</u>
Change in net assets of governmental activities	\$	<u><u>202,946</u></u>

The notes to the financial statements are an integral part of this statement.

ST. CLAIR TOWNSHIP
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

	Water	Sewer	Total
ASSETS:			
Current Assets:			
Cash and cash equivalents	\$ 668,757	\$ 338,897	\$ 1,007,654
Investments	172,273	-	172,273
Accounts and interest receivable	98,039	52,035	150,074
Due from other funds	225	996	1,221
Total Current Assets	<u>939,294</u>	<u>391,928</u>	<u>1,331,222</u>
Restricted Assets:			
Cash and cash equivalents	-	217,407	217,407
Investments	-	252,426	252,426
Special assessments	-	11,010	11,010
	<u>-</u>	<u>480,843</u>	<u>480,843</u>
Property, Plant and Equipment:			
Property, plant and equipment	684,291	1,876,079	2,560,370
Less - accumulated depreciation	(189,783)	(891,575)	(1,081,358)
Total Property, Plant and Equipment (net of accumulated depreciation)	<u>494,508</u>	<u>984,504</u>	<u>1,479,012</u>
Other Assets:			
Sewer capacity rights	-	518,000	518,000
Less: Amortization	-	(194,912)	(194,912)
	<u>-</u>	<u>323,088</u>	<u>323,088</u>
Total Assets	<u>1,433,802</u>	<u>2,180,363</u>	<u>3,614,165</u>
LIABILITIES:			
Current Liabilities:			
Accounts payable	20,462	848	21,310
Due to other governmental units	44,719	9,528	54,247
Due to other funds	-	225	225
Total Current Liabilities	<u>65,181</u>	<u>10,601</u>	<u>75,782</u>
Current Liabilities - (payable from restricted assets):			
Current portion of long-term liabilities	-	40,000	40,000
Long-Term Liabilities (less current portions):			
Notes payable (net of current portion)	-	350,000	350,000
Total Liabilities	<u>65,181</u>	<u>400,601</u>	<u>465,782</u>
NET ASSETS:			
Investment in capital assets, net of related liabilities	494,508	917,592	1,412,100
Reserved for debt retirement	-	480,843	480,843
Unrestricted			
Undesignated	<u>874,113</u>	<u>381,327</u>	<u>1,255,440</u>
Total Net Assets	<u>\$ 1,368,621</u>	<u>\$ 1,779,762</u>	<u>\$ 3,148,383</u>

The accompanying notes are an integral part of these financial statements.

ST. CLAIR TOWNSHIP

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	Water	Sewer	Total
Operating Revenues:			
Charges for services	\$ 353,677	\$ 196,325	\$ 550,002
Other	19,033	14,597	33,630
Total Operating Revenues	<u>372,710</u>	<u>210,922</u>	<u>583,632</u>
Operating Expenses:			
Salaries	23,518	23,271	46,789
Supplies	1,085	993	2,078
Water purchases	322,044	-	322,044
Sewer service cost	-	135,098	135,098
Professional fees	4,049	6,598	10,647
Repairs and maintenance	39,196	27,926	67,122
Utilities	-	8,522	8,522
Gas and oil	811	1,761	2,572
Miscellaneous	3,158	1,328	4,486
Depreciation/Amortization	16,166	48,451	64,617
Total Operating Expenses	<u>410,027</u>	<u>253,948</u>	<u>663,975</u>
Operating Income (Loss)	<u>(37,317)</u>	<u>(43,026)</u>	<u>(80,343)</u>
Non-Operating Revenues (Expenses):			
Interest income	15,885	17,189	33,074
Tap-In Fees	9,900	15,750	25,650
Interest expenses	-	(25,300)	(25,300)
Total Non-Operating Revenues	<u>25,785</u>	<u>7,639</u>	<u>33,424</u>
Net Income (Loss)	<u>(11,532)</u>	<u>(35,387)</u>	<u>(46,919)</u>
Net Assets at beginning of year	<u>1,380,153</u>	<u>1,815,149</u>	<u>3,195,302</u>
Net Assets end of year	<u>\$ 1,368,621</u>	<u>\$ 1,779,762</u>	<u>\$ 3,148,383</u>

The accompanying notes are an integral part of these financial statements.

ST. CLAIR TOWNSHIP

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	Water	Sewer	Total
Cash Flows From Operating Activities:			
Cash receipts from customers	\$ 349,630	\$ 236,027	\$ 585,657
Cash payments to suppliers	(397,953)	(210,943)	(608,896)
Cash payments to employees	(23,518)	(23,271)	(46,789)
Net Cash Provided (Used) by Operating Activities	(71,841)	1,813	(70,028)
Cash Flows From Capital and Related Financing Activities:			
Tap-in fees	9,900	15,750	25,650
Payments received on special assessments	-	2,543	2,543
Principal paid on contacts payable	-	(40,000)	(40,000)
Interest paid on contacts payable	-	(25,300)	(25,300)
Net Cash Provided (Used) by Capital and Related Financing Activities	9,900	(47,007)	(37,107)
Cash Flows From Investing Activities:			
Purchase of investments	(172,273)	(252,426)	(424,699)
Purchase of fixed assets	(44,483)	(195)	(44,678)
Interest earned	15,886	17,189	33,075
Net Cash Provided (Used) by Investing Activities	(200,870)	(235,432)	(436,302)
Net Increase (Decrease) in Cash and Cash Equivalents for the year	(262,811)	(280,626)	(543,437)
Cash and Cash Equivalents at Beginning of Year	931,568	836,930	1,768,498
Cash and Cash Equivalents at End of Year	<u>\$ 668,757</u>	<u>\$ 556,304</u>	<u>\$ 1,225,061</u>
Reconciliation of Net Income (Loss) to:			
Net Cash Provided (Used) by Operating Activities:			
Operating income (loss) for the year	\$(37,317)	\$(43,026)	\$(80,343)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities -			
Depreciation	16,166	48,451	64,617
Change in assets and liabilities:			
Receivable	(22,855)	(4,462)	(27,317)
Due from other funds	(225)	38,104	37,879
Accounts payable	33,495	(28,942)	4,553
Due to other funds	(61,105)	(8,312)	(69,417)
Net Cash Provided (Used) By Operating Activities	<u>\$(71,841)</u>	<u>\$ 1,813</u>	<u>\$(70,028)</u>

The accompanying notes are an integral part of these financial statements.

ST. CLAIR TOWNSHIP
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	Agency Funds
	<hr/>
ASSETS:	
Cash and cash equivalents	\$ 47,635
	<hr/> <hr/>
LIABILITIES:	
Due to others	\$ 47,635
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

ST. CLAIR TOWNSHIP, MICHIGAN

NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity –

St. Clair Township, Michigan, a Municipal Corporation, was organized as a Township in 1823, and operates under the provisions of the constitution and general law of the State of Michigan. The Township is one of twenty-three Townships in St. Clair County and covers an area of approximately 16 square miles. The Township operates under an elected Township Board which consists of a Supervisor, Clerk, Treasurer, and four (4) Trustees, and provides services to its more than 6,300 residents in many areas including fire protection, water, sewer, roads, parks and planning and economic development.

These financial statements present the Township and its component units, entities for which the Township is considered to be financially accountable. There were no component units at June 30, 2005.

B. Government-wide and fund financial statements –

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support..

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

ST. CLAIR TOWNSHIP, MICHIGAN

NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are due. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Also only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Township.

The Township reports the following major governmental funds:

General Fund – is the Township’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Revolving Capital Improvement Fund – is used to accumulate resources, mainly transfers from the General Fund and interest earned for capital improvements with in the Township.

Assessment Fund – is used to account for the collection of special assessments.

Inspection Fund – is used to account for inspection fees and the cost of providing those inspection.

ST. CLAIR TOWNSHIP, MICHIGAN

NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

The Township reports the following major proprietary funds:

Water Supply System Fund – is used to account for the treatment and distribution of water to residential and commercial users.

Wastewater Fund – is used to account for sanitary sewer services provided to the residential and commercial users.

Additionally, the Township reports the following fund types –

Agency Funds –are used to account for assets held by the Township as an agent for other government and other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses for nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principle on-going operations. The principle operating revenues of the Enterprise Funds are charges to customers for sale and services. Operating expenses from Enterprise Funds include costs of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, the unrestricted resources as they are needed.

ST. CLAIR TOWNSHIP, MICHIGAN

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

D. Assets, Liabilities and Net Assets or Equity –

Deposits and Investments –

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit with original maturities of three months or less from the date of acquisition. The investment trusts have the general characteristics of demand deposit accounts in that the Township may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty, and are reported as cash and cash equivalents.

State statutes authorize the Township to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

Receivables and Payables –

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property the receivables are shown net of an allowance for uncollectible.

Property Tax Calendar –

Property taxes levied and collected in December of each year are budgeted and treated as revenue in the current year.

Capital Assets –

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

ST. CLAIR TOWNSHIP, MICHIGAN

NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

Buildings	7-50
Building Improvements	7-50
Land improvements	7-40
Utility systems	10-50
Machinery and equipment	3-20
Vehicles	3-10

Long-Term Obligations –

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity –

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates -

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ST. CLAIR TOWNSHIP, MICHIGAN

NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgets –

The Township Supervisor and the Clerk prepare and submit their proposed operating budgets for the year commencing July 1. The budgets include proposed expenditures and resources to finance them.

Prior to June 30, the proposed budget is presented to the Township. The Board holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through the passage of a Township Resolution. After the budget is adopted, all amendments must be approved by the Township Board.

The Township's General Fund budget was adopted at the function level. However, for control purposes is maintained at the object (account) level. The Township did not adopt budgets for the Special Revenue Funds.

Excess of Expenditures over Appropriations –

<u>Fund Type/Function/Activity</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund –			
General Government –			
Legislative	\$ 6,032	\$ 6,211	\$ 179
Supervisor	20,541	21,337	796
Treasurer 35,052	39,280	4,228	
Public Works –			
Refuse Collection	223,000	238,556	15,556
Street Lights	19,000	19,775	775

The Township did not adopt budgets for the Assessment, Inspection and Capital Improvement Funds as required by Michigan Compiled Laws.

Other –

The Township did not have certifications from all the financial institutions they deal with.

NOTE 3 - DEPOSITS AND INVESTMENTS:

As of June 30, 2005, the carrying amount of the deposits is as follows:

	<u>Government</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Deposits –			
Cash on hand –			
Petty Cash	\$ 400	\$ -	\$ 400
Deposits with Financial Institutions –			
Checking/Money Market	3,398,388	47,635	3,446,023
Savings/Certificates of Deposit	<u>1,160,260</u>	<u>-</u>	<u>1,160,260</u>
	<u>\$ 4,559,048</u>	<u>\$ 47,635</u>	<u>\$4,606,683</u>

- (1) Certificates of Deposits in the amount of \$626,640 have been shown as investments since they have a maturity in excess of 90 days from the date of purchase.

ST. CLAIR TOWNSHIP, MICHIGAN

NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 3 - DEPOSITS AND INVESTMENTS – (cont'd):

Deposits –

Custodial Credit Risk – is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township's investment policy and Act 217 PA 1982, as amended, authorizes the Township to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

In addition the Township's policy requires that the financial institutions must document a minimum capital requirement of at least \$10,000,000 and at least five years of operations. Other than those areas, the Township does not have a deposit policy for custodial credit risk.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of June 30, 2005, the bank balance of the Township's deposits were \$4,638,215 of which \$800,000 was FDIC insured with the balance \$3,838,215 exposed to credit risk because they are uninsured and uncollateralized.

Investments –

Act 20 PA 1994, as amended by Act 1997 PA 1999, authorizes the Township to invest surplus funds in bonds, securities and other direct obligations or repurchase agreements consisting of these financial instruments of the United States government or an agency or instrumentality of the United States; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of the political subdivisions that at the time of purchase, are rated as investment grades by not less than one standard rating service, mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the surplus funds investment pool act, 1982 PA 3657, 129.111 to 129.188; investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

Interest rate risk – is the risk that the market value of securities in the Township's portfolio will fall due to changes in market interest increases. The Township policy attempts to minimize interest rate risk by avoiding the need to sell securities prior to maturity and investing operating funds primarily in short term securities, money markets mutual funds or similar public investment pools.

ST. CLAIR TOWNSHIP, MICHIGAN

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 3 - DEPOSITS AND INVESTMENTS – (cont'd):

Credit risk – is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law and the Township investment policy limits the type of investments the Township can purchase.

Concentration of credit risk – is the risk of loss attributed to the magnitude of the Township's investments as a single issuer. The Township's investment policy requires that the Township's investments be diversified by avoiding over-concentration in securities for a specific issuer of business sector, excluding U.S. Treasury securities.

NOTE 4 – RECEIVABLES:

Receivables in the governmental and business-type activities are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts and interest	\$ -	\$ 150,074
Special assessments	12,575	-
Due from other governmental units – State	<u>141,135</u>	<u>-</u>
	<u>\$ 153,710</u>	<u>\$ 150,074</u>

Governmental funds reports deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
General Fund	\$ -	\$ 50,000
Special Assessments	<u>10,291</u>	<u>-</u>
	<u>\$ 10,291</u>	<u>\$ 50,000</u>

ST. CLAIR TOWNSHIP, MICHIGAN

NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 5 – CAPITAL ASSETS:

Primary Government –

Capital asset activity of the primary government for the year ended June 30, 2005 was as follows:

	July 1, 2004 Balance	Additions	Deletions	June 30, 2005 Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 54,924	\$ -	\$ -	\$ 54,924
Capital assets, being depreciated:				
Land improvements	87,127	11,684	-	98,811
Buildings and improvements	226,292	18,100	-	244,392
Equipment	101,116	-	-	101,116
Total capital assets being depreciated	414,535	29,784	-	444,319
Less accumulated depreciation	(106,267)	(21,528)	-	(127,795)
Total capital assets being depreciated, net	308,268	8,256	-	316,524
Governmental activities capital assets, net	\$ 363,192	\$ 8,256	\$ -	\$ 371,448
Business Type Activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 44,483	\$ -	\$ 44,483
Capital assets, being depreciated:				
Main and extensions	2,486,259	-	-	2,486,259
Equipment	29,433	195	-	29,628
Total capital assets being depreciated	2,515,692	195	-	2,515,887
Less accumulated depreciation	(1,027,100)	(54,258)	-	(1,081,358)
Total capital assets being depreciated, net	1,488,592	(54,063)	-	1,434,529
Business activities capital assets, net	\$ 1,488,592	\$ (9,580)	\$ -	\$ 1,479,012

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General governmental	\$ 19,237
Public Works	751
Recreation	1,540
Total Depreciation expense – governmental activities	\$ 21,528
Business-type activities:	
Water	\$ 16,166
Sewer	38,092
Total Depreciation expense – business-type activities	\$ 54,258

ST. CLAIR TOWNSHIP, MICHIGAN

NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 6 - LONG-TERM DEBT:

St. Clair County 1994 Contract Payable –

On May 1, 1993, the St. Clair County Department of Public Works issued \$675,000 of Sewage Disposal System No. V Series 1993 Bonds for the purpose of paying the cost of construction a sewer systems to serve a portion of the Township. Pursuant to provisions of Act 185, Public Acts of Michigan 1957, as amended, St. Clair Township and the County of St. Clair have entered into a contract whereby the Township has agreed to pay the County annual installments ranging from \$40,000 to \$45,000 through May 1, 2014, with interest ranging from 4.75 to 6.0 percent, payable semi-annually.

In order to pay such amount to the County, the Township is obligated, to the extent necessary, to levy ad valorem taxes without limitation as to the rate or amount on all taxable property located in the Township. It is the intention of the Township to pay the obligations to the County from special assessments, connection charges and quarterly charges.

Balance as of July 1, 2004	\$ 430,000
Payment	(40,000)
Balance as of June 30, 2005	<u>\$ 390,000</u>

Annual Requirements to Amortize Debt:

The annual requirements to amortize bonded debt outstanding at June 30, 2005 is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 40,000	\$ 22,740	\$ 62,740
2007	40,000	20,540	60,540
2008	40,000	18,300	58,300
2009	45,000	16,020	61,020
2010	45,000	13,410	58,410
2011-2014	<u>180,000</u>	<u>26,955</u>	<u>206,955</u>
	<u>\$ 390,000</u>	<u>\$ 117,965</u>	<u>\$ 507,965</u>

NOTE 7 - SEWAGE DISPOSAL SYSTEM AGREEMENT:

In 1972 and 1993, the Township entered into agreements with St. Clair County to acquire and construct sewage disposal mains and extensions. The County has constructed the mains and extension and is leasing them to the St. Clair Township, who is operating, maintaining, and managing these lines. Upon final payment of the bond issues described in Note 6, ownership of the mains and extensions will revert to the Township. The cost of the lines and extensions and the aggregate amount necessary for the retirement of outstanding bond principal are recorded in the Utilities (Sewer) Fund.

ST. CLAIR TOWNSHIP, MICHIGAN

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 7 - SEWAGE DISPOSAL SYSTEM AGREEMENT – (cont'd):

St. Clair Township does not operate or own a Sanitary Sewage Disposal Plant; instead, the Township/County has entered into an agreement with the City of St. Clair to accept and dispose of the Township's sanitary sewage. The latest agreement dated June 27, 1988 provides, among other things that the Township should provide and reserve to the Township, sewage treatment services and Township rights in the sanitary wastewater treatment plant of three hundred sixty-five thousand (365,000) average gallons per day and a peak flow of forty-five thousand six hundred (45,600) gallons per hour.

The Township pays on a monthly basis, its proportionate share of the operations, maintenance and replacement costs of the systems.

NOTE 8 - WATER SUPPLY:

The Township has entered into an agreement with the Township of St. Clair to Supply water to the Township. Under the agreement, dated August 22, 2000 the Township agrees to provide the Township up to 500,000 gallons per day. The agreement is for a period of twenty (20) years.

NOTE 9 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

The composition of interfund balances as of June 30, 2005:

Due to/From Other Funds –

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Assessment Fund	General Fund	5,200
Inspections Fund	General Fund	3,473
Water Fund	Sewer Fund	225
Sewer Fund	General Fund	<u>996</u>
		<u>\$ 9,894</u>

ST. CLAIR TOWNSHIP, MICHIGAN

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 10 – RESERVED FUND BALANCE/RETAINED EARNINGS:

Reserved Fund Balance –

Fund Balance has been reserved in the general fund to indicate the portion of Fund Balance not available, but reserved for a specific purpose. The following is a summary of the reserved Fund Balance at June 30, 2005

General Fund -	
Parks and recreation	\$ 91,217
Prepaid expenses	267,303
Refuse Collection	<u>99,109</u>
	457,629
Special Revenue Fund –	
Inspections -	
Prepaid expenses	<u>1,255</u>
	<u>\$ 458,884</u>

Reserved Retained Earnings –

Retained Earnings have been reserved in the sewer fund in the amount of \$480,843 to indicate that the money is reserved for debt payments.

NOTE 11 – SUBSEQUENT EVENTS:

On July 1, 2005, the Township closed on the purchase of land on Wadhams Road for \$250,398. The checks for this purchase were written as of June 30, 2005, and is reported on the financial statements as a prepaid item.

REQUIRED SUPPLEMENTARY INFORMATION

ST. CLAIR TOWNSHIP
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 206,800	\$ 206,800	\$ 230,591	\$ 23,791
Licenses and permits	10,225	10,225	22,558	12,333
Intergovernmental -				
State	446,935	446,935	433,752	(13,183)
Local	20,000	20,000	23,206	3,206
Charges for services	10,825	10,825	13,415	2,590
Interest and rents	16,861	16,861	25,066	8,205
Special assessments	241,300	241,300	254,618	13,318
Other	500	500	900	400
	<u>953,446</u>	<u>953,446</u>	<u>1,004,106</u>	<u>50,660</u>
Expenditures:				
General Government -				
Legislative	6,950	6,032	6,211	(179)
Supervisor	19,977	20,541	21,337	(796)
Assessor	42,004	38,979	35,268	3,711
Clerk	23,125	24,781	23,908	873
Treasurer	33,840	35,052	39,280	(4,228)
Board of Review	1,880	1,809	1,808	1
Cemetery	1,170	1,170	258	912
Building and grounds	124,350	155,727	148,420	7,307
Elections	9,640	11,791	10,466	1,325
	<u>262,936</u>	<u>295,882</u>	<u>286,956</u>	<u>8,926</u>
Total General Government				
Public Safety -				
Fire department	166,362	173,350	167,801	5,549
Zoning	6,830	7,130	5,678	1,452
Planning Commission	31,440	40,700	40,677	23
Liquor law enforcement	2,225	2,415	1,638	777
	<u>206,857</u>	<u>223,595</u>	<u>215,794</u>	<u>7,801</u>
Public Works -				
Department of Public Works	18,790	19,990	14,344	5,646
Refuse collection	223,000	223,000	238,556	(15,556)
Roads	148,563	97,529	56,517	41,012
Street lights	19,000	19,000	19,775	(775)
	<u>409,353</u>	<u>359,519</u>	<u>329,192</u>	<u>30,327</u>

Continued

ST. CLAIR TOWNSHIP**GENERAL FUND****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Recreational and Cultural - Parks	\$ 74,300	\$ 74,450	\$ 12,283	\$ 62,167
Total Expenditures	953,446	953,446	844,225	109,221
Excess of revenues over (under) expenditures	-	-	159,881	159,881
Other Financing Sources:				
Transfer In				
Improvement	-	-	250,398	250,398
	-	-	250,398	250,398
Excess of revenues over (under) expenditures and other uses	-	-	410,279	410,279
Fund Balance at beginning of year	1,395,006	1,395,006	1,395,006	-
Fund Balance at end of year	\$ 1,395,006	\$ 1,395,006	\$ 1,805,285	\$ 410,279

Concluded

SUPPLEMENTARY INFORMATION

ST. CLAIR TOWNSHIP, MICHIGAN

SEWER FUNDS COMBINING SCHEDULE OF NET ASSETS JUNE 30, 2005

	Operating Fund	Jordan Creek	Total
ASSETS:			
Current Assets:			
Cash and cash equivalents	\$ 338,897	\$ -	\$ 338,897
Receivables -			
Accounts	52,035	-	52,035
Due from other funds	996	-	996
	<u>391,928</u>	<u>-</u>	<u>391,928</u>
Restricted Assets:			
Cash and cash equivalents	-	217,407	217,407
Investments	-	252,426	252,426
Special Assessments	-	11,010	11,010
	<u>-</u>	<u>480,843</u>	<u>480,843</u>
Property, Plant and Equipment			
Machinery and Equipment	23,700	-	23,700
Water and Sewer Lines	1,852,379	-	1,852,379
	<u>1,876,079</u>	<u>-</u>	<u>1,876,079</u>
Less - accumulated depreciation	(891,575)	-	(891,575)
	<u>984,504</u>	<u>-</u>	<u>984,504</u>
Other Assets:			
Sewer capacity rights	518,000	-	518,000
Less: Amortization	(194,912)	-	(194,912)
	<u>323,088</u>	<u>-</u>	<u>323,088</u>
Total Assets	<u>\$ 1,699,520</u>	<u>\$ 480,843</u>	<u>\$ 2,180,363</u>
LIABILITIES:			
Current Liabilities:			
Accounts payable	\$ 848	\$ -	\$ 848
Due to other governmental units	9,528	-	9,528
Due to other funds	225	-	225
	<u>10,601</u>	<u>-</u>	<u>10,601</u>
Current Liabilities - (Payable from restricted assets):			
Current portion of long-term liabilities	-	40,000	40,000
Long-Term Debt:			
Contract payable - County of St. Clair	390,000	(40,000)	350,000
Total Liabilities	<u>400,601</u>	<u>-</u>	<u>400,601</u>
NET ASSETS:			
Investment in capital assets, net of related liabilities	917,592	-	917,592
Unrestricted			
Reserved for Debt Retirement	-	480,843	480,843
Unreserved	381,327	-	381,327
	<u>\$ 1,298,919</u>	<u>\$ 480,843</u>	<u>\$ 1,779,762</u>

ST. CLAIR TOWNSHIP, MICHIGAN

SEWER FUNDS

COMBINING SCHEDULE OF REVENUES, EXPENSES

AND CHANGES IN NET ASSETS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Operating Fund	Jordan Creek	Total
Operating Revenues:			
Charges for services	\$ 196,325	\$ -	\$ 196,325
Miscellaneous	14,597	-	14,597
	<u>210,922</u>	<u>-</u>	<u>210,922</u>
Operating Expenses:			
Salaries and benefits	23,271	-	23,271
Supplies	993	-	993
Sewer service cost	135,098	-	135,098
Professional fees	6,598	-	6,598
Repairs and maintenance	27,926	-	27,926
Utilities	8,522	-	8,522
Gas and oil	1,761	-	1,761
Miscellaneous	1,328	-	1,328
Depreciation	48,451	-	48,451
	<u>253,948</u>	<u>-</u>	<u>253,948</u>
Operating Income (Loss)	<u>(43,026)</u>	<u>-</u>	<u>(43,026)</u>
Non-Operating Revenues (Expenses):			
Interest income			
Investment	4,747	10,634	15,381
Special Assessments	-	1,808	1,808
Tap-In Fees	15,750	-	15,750
Interest expense	(25,300)	-	(25,300)
	<u>(4,803)</u>	<u>12,442</u>	<u>7,639</u>
Net Income (Loss) Before Transfers	<u>(47,829)</u>	<u>12,442</u>	<u>(35,387)</u>
Transfers In (Out):			
Transfers in	65,300	-	65,300
Transfers out	-	(65,300)	(65,300)
	<u>65,300</u>	<u>(65,300)</u>	<u>-</u>
Net Income (Loss)	17,471	(52,858)	(35,387)
Net Assets at beginning of year	<u>1,281,448</u>	<u>533,701</u>	<u>1,815,149</u>
Net Assets at end of year	<u>\$ 1,298,919</u>	<u>\$ 480,843</u>	<u>\$ 1,779,762</u>

ST. CLAIR TOWNSHIP, MICHIGAN
SEWER FUNDS
COMBINING SCHEDULE OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Operating Fund	Jordan Creek	Total
Cash Flow From Operating Activities:			
Cash receipts	\$ 236,027	\$ -	\$ 236,027
Cash payments to suppliers	(210,943)	-	(210,943)
Cash payments to employees	(23,271)	-	(23,271)
Net Cash Provided by Operating Activities	<u>1,813</u>	<u>-</u>	<u>1,813</u>
Cash Flow From Non-Capital and Related Financing Activities:			
Transfers from/to other funds	<u>65,300</u>	<u>(65,300)</u>	<u>-</u>
Cash Flow From Capital and Related Financing Activities:			
Tap-in fees	15,750	-	15,750
Payments received on special assessments	-	2,543	2,543
Principal paid on contracts payable	(40,000)	-	(40,000)
Interest paid on contracts payable	<u>(25,300)</u>	<u>-</u>	<u>(25,300)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(49,550)</u>	<u>2,543</u>	<u>(47,007)</u>
Cash Flow From Investing Activities:			
Purchase of investments	-	(252,426)	(252,426)
Purchase of fixed assets	(195)	-	(195)
Interest earned	<u>4,747</u>	<u>12,442</u>	<u>17,189</u>
Net Cash Provided by Investing Activities	<u>4,552</u>	<u>(239,984)</u>	<u>(235,432)</u>
Net increase (decrease) in cash and cash equivalents for the year	22,115	(302,741)	(280,626)
Cash and Cash Equivalents at beginning of year	<u>316,782</u>	<u>520,148</u>	<u>836,930</u>
Cash and Cash Equivalents at end of year	<u><u>\$ 338,897</u></u>	<u><u>\$ 217,407</u></u>	<u><u>\$ 556,304</u></u>
Reconciliation of Operating Income to:			
Net Cash Used by Operating Activities:			
Operating income (loss) for the year	\$(43,026)	\$ -	\$(43,026)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities -			
Depreciation/amortization	48,451	-	48,451
Changes in assets and liabilities -			
Receivables	(4,462)	-	(4,462)
Due from other funds	38,104	-	38,104
Accounts payable	(28,942)	-	(28,942)
Due to other funds	<u>(8,312)</u>	<u>-</u>	<u>(8,312)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 1,813</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,813</u></u>

FIDUCIARY FUNDS

ST. CLAIR TOWNSHIP, MICHIGAN

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005
TOTAL ALL AGENCY FUNDS				
ASSETS				
Cash and cash equivalents	\$ 43,863	\$ 13,859,637	\$ 13,855,865	\$ 47,635
Due to others	43,863	13,373,640	13,369,868	47,635
Due to other funds	-	614	614	-
Total Liabilities	\$ 43,863	\$ 13,374,254	\$ 13,370,482	\$ 47,635

CURRENT TAX FUND

	Balance June 30, 2004	Additions	Reductions	Balance June 30, 2005
ASSETS				
Cash and cash equivalents	\$ -	\$ 13,495,139	\$ 13,491,250	\$ 3,889
LIABILITIES				
Due to others	\$ -	\$ 13,179,485	\$ 13,175,596	\$ 3,889
Due to other funds	-	614	614	-
	\$ -	\$ 13,180,099	\$ 13,176,210	\$ 3,889

TRUST AND AGENCY FUND

	Balance June 30, 2004	Additions	Reductions	Balance June 30, 2005
ASSETS				
Cash and cash equivalents	\$ 43,863	\$ 364,498	\$ 364,615	\$ 43,746
LIABILITIES				
Due to others	\$ 43,863	\$ 194,155	\$ 194,272	\$ 43,746

MANAGEMENT LETTER

To the Members of the Township Board
St. Clair Township
St. Clair County, Michigan

In planning and performing our audit of the basic financial statements of St. Clair Township for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The water and sewer accounts receivable ledger should be periodically reconciled to the detailed subsidiary records.

During our audit we noted that the water and sewer accounts receivable ledger was not reconciled to the general ledger on a monthly basis. By not performing this reconciliation, transactions or adjustments may be posted to the general ledger, but not the detailed accounts receivable ledger and vice versa. To increase the control over the utility accounts receivable and cash receipts, and increase the accuracy of internally prepared financial information, the detailed accounts receivable ledger should be reconciled to the general ledger on a monthly basis.

The Township should investigate the difference between the amount of water purchased and the amount sold.

During our analysis of the water billings and purchases, we noted that the Township purchase approximately 87 million gallons of water, but only sold approximately 72 million gallons. Although some water loss is expected, this would be approximately a 20% water loss, which seems rather high.

We recommend that the Township work with the Township Engineer to determine the reasons for this loss.

The Township should investigate the large difference between the amount of sewer treated and the amount sold.

During our analysis of the sewer billings and treatment costs, we noted that the Township paid the City of St. Clair for approximately 102 million gallons but only billed 55 million gallons. Although we understand that there is always infiltration into the system, this appears to be abnormally high.

We recommend that the Township work with the Township Engineer to determine the reasons for the differences.

Budgets should be adopted for all governmental funds.

For fiscal 2005 the Township did not adopt budgets for the three Special Revenue Funds; Assessment, Inspection and Revolving Capital Improvement Funds. Michigan Public Act requires that the Township adopt budgets for all governmental funds.

This report is intended solely for the information of the Township Board, management, others within the organization, the Michigan Department of Treasury and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script, reading "Stewart, Beauvois & Whipple".

July 20, 2005